Global Views

Weekly commentary on economic and financial market developments

January 18, 2013

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Sparks To Begin Flying Again In The Fiscal Cliff Part II

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A7.**

Next week may be a lively one for **Canada** watchers so we lead with that country. On Tuesday, Ontario Finance Minister Dwight Duncan speaks about "Facing Ontario's Inconvenient Fiscal Truth and Eliminating the Deficit" which may be of interest to investors in Ontario bonds. It is important to also put this speech in the context of the Ontario Liberal Leadership Convention that starts next weekend and how the outcome could well affect Ontario's Finance Minister himself. The convention follows Ontario Premier Dalton McGuinty's decision to step down on October 12 following nine years as Premier. The front runner is Sandra Pupatello who recently garnered 27% of the over 1,800 delegate voters who will be attending the leadership convention and is perceived to be well supported among the additional votes from the party establishment. Kathleen Wynne received 25% and is close behind while other candidates trailed notwithstanding the always possible element of surprise. Neither of the two front runners are perceived to be offering significantly different platforms from one another from a broad market perspective, and both generally offer policy continuity. That notwithstanding, there are two issues. One concerns timing the next election. The last election was held on October 6th, 2011 and the next election will be on October 1st, 2015 unless the new Liberal leader chooses to call one earlier. That may not be terribly likely. The Liberals are currently in a minority governing position with 53 of 107 seats, and the Progressive Conservatives are in opposition with 37 seats followed by 17 for the NDP, and the Liberals are not performing strongly in the polls. Another issue relates to timing the next Ontario budget since if Pupatello wins, Finance Minister Dwight Duncan has offered to resign his seat and give her a spot in the legislature. That would in turn trigger a by-election, and a potential change in Finance Ministers.

Earlier that same day, the Canadian retail sales print will be a tough one to call not least because we usually have very little to go by going into the report. We're calling for a largely flat print, as gasoline prices were sharply lower and that could weigh on the headline, and new vehicle sales were flat in our seasonally adjusted terms. Those two points might suggest a weak print, but the international merchandise trade figures released for that month showed a fairly large 1% m/m rise in imports of consumer goods and a 3.5% pop higher in motor vehicle imports. That might imply strength in consumption, but it is not clear how much of this will translate through to retail sales that represent well under half of total consumer spending — and how much of this may have gone to retail inventories.

The Bank of Canada then follows on Wednesday with its rate statement and simultaneous release of the quarterly Monetary Policy Report (note the 10am change in time) followed by an 11:15am press conference led by Governor Carney. We expect a moderately more dovish position manifest through a downgraded assessment of near-term growth, but the BoC is likely to retain its very vague rate guidance. Please see our BoC preview in this issue of Global Views. Also note that the BoC's rate decision will have to be made in the absence of the latest print for CPI which lands on Friday. We're expecting another very soft print in month-over-month terms, but the year-ago figure may well spike higher in the context of a very soft base effect as headline CPI came in very softly in December 2011. Even a flat month-over-month seasonally unadjusted CPI print for last month would raise the year-over-year rate to about 1.4% from 0.8% the prior month, but our call for a small m/m decline would restrain such a jump. That could well in turn reverse itself again in the next print for January due a month from now. No change in the month-over-month seasonally unadjusted headline CPI for two months in a row would prompt a December rise to 1.4% to then give way to a renewed decline to about 1% the month after. In other words, watch the smoothed trend and don't get caught up in the volatility. Flat seasonally unadjusted prints are unlikely, however, and we only use them as guideposts for the base effect risks. That said, we cannot rule out another decline in the seasonally unadjusted m/m print for next week that could restrain some of the base effect influences.

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US equity and bond markets start the week closed on Monday and that will probably leave the day's global trading volumes relatively soft. Earnings reports and politics will dominate the rest of the week's market influences, but a couple of housing gems stand out as potential market movers. Opposing sides in the debt ceiling debate could well clash early in the week. Coming out of their weekend strategy retreat, the House GOP members may begin to communicate their strategy for the weeks ahead and hints of rolling extensions to the debt ceiling limit that could prolong market and economic uncertainty are already being floated. Further, President Obama delivers his inauguration speech on Monday. It would ordinarily be on January 20th, but this time it falls on a Sunday for the seventh time in history and so it automatically falls to the next day which also happens to be Martin Luther King, Jr. Day. The President is likely to reinforce a hard line on debt ceiling and spending negotiations as the GOP position becomes clearer ahead of the late February/early March debt ceiling, the March 1st sequestration cuts, and the March 27th Continuing Resolution expiration that risks a partial government shut down. Earnings season moves into full swing with 84 firms on the S&P500 slated to report during the week, and 108 firms the following week, and the tone of the earnings season will migrate away from financials and toward nonfinancials. The earnings beat ratio is over 70% so far this season and led by consumer goods and financials.

Tuesday's existing home sales will probably remain at the highest level since November 2009 and about 50% higher than the low point reached in July 2010. Friday's new home sales could face upside risk to the consensus call for the strongest print since April 2010. That's because the same month of December raised housing starts to the highest level since June 2008. Starts obviously lag sales, but not necessarily by much since unlike resales, new home sales generally close within a tight time frame given less paperwork on closing. Third tier risk comes through the Richmond Fed's manufacturing index which follows disappointing regional surveys for New York and the Philadelphia Fed's district into the new year. There is no Fed speak scheduled for next week, but interviews are always a risk. The US auctions US$15 billion in 10 year TIPS on Thursday.

European markets will contribute to the broad global market tone primarily through elevated data risk. Surveys top the list including Thursday's purchasing managers' indices across the Eurozone that are expected to portray European manufacturing as stuck in recessionary conditions, but accompanied by greater service sector resilience. German investor confidence (Tuesday) may improve somewhat in the wake of the January 1st fiscal cliff agreement in the United States even as deferred risks remain ahead. German business confidence (Friday) could also face some upside, although Germany's entry into recession in 2012Q4 could restrain sentiment. Minutes to the Bank of England's policy meeting on January 10th at which the central bank left its key policy rate and asset purchase target unchanged will be released on Wednesday. They will probably be rapidly discounted by the time Friday's Q4 UK GDP print lands. Consensus is expecting it to be the fourth negative reading in the past five quarters, but unlike Germany, a recession call (or "triple dip") will have to wait for 2013Q1 assessments to roll in as typically defined by back-to-back quarterly contractions given that Q3 was a positive print. UK jobs, EC consumer confidence, and Italian retail sales round out the releases.

European event risk could be primarily focused upon the state election in Lower Saxony this Sunday. It could well hand a defeat to the Free Democratic Party that is the coalition partner to German Chancellor Angela Merkel's CDP at the national level, and force the leader of the FDP and Federal economics minister Philipp Rosler to step down. Lower Saxony Governor David McAllister and leader of the state's CDU could also be toppled because of the weak standing of his coalition partner, the FDP. The risk here is that a center-left coalition victory in Lower Saxony could reinforce the sentiment that Merkel faces the identical risk in her own election bid this October. Euro-area finance ministers meet in Brussels on Tuesday in advance of next month's Leaders Summit. The annual meeting of the World Economic Forum will be held in Davos. Bond auction risk will be low with only Germany and the UK set to tap markets.

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Asian markets will also have the capacity to influence the global market tone. First among influences will be Tuesday's Bank of Japan meeting and ensuing announcements. It is widely expected to result in further policy easing. Governor Shirakawa's term is up in April and Prime Minister Shinzo Abe has been pressuring the BoJ to raise its inflation target to 2% from 1%. If Shirakawa doesn't deliver, his government appointed successor likely will. Reuters also recently reported that the BoJ may pledge open-ended asset purchases. The Nikkei newspaper, however, reported that the BoJ is moving toward an extra ¥10 trillion in asset purchases. Next week's Japanese trade and CPI are likely to be weak enough to support a push toward further easing.

China's private flash purchasing managers' index for the manufacturing sector is likely to garner market attention on Wednesday evening ET. The prior December print signaled an expanding manufacturing sector and contributed toward market sentiments that China may be gaining momentum. Australian CPI for Q4 on Tuesday follows prior readings that remained in the 2-2.5% y/y pace since late 2010 using the RBA's preferred trimmed mean gauge. A key question will be whether inflation continues to remain well behaved into 2013 in response to the RBA's easing that began in November 2011 and that resulted in rate cuts through to December 2012. Consensus expects South Korea to chalk up the best quarterly GDP growth print since 2012Q1 when the Q4 release lands on Wednesday, but yearly growth will still remain muted at a sub-2% pace. Bangko Sentral ng Pilipinas is expected to leave its key overnight reverse repurchase rate unchanged at 3.5%.

Finally, all global markets may be sensitive to the IMF's latest forecast update that lands on Wednesday and that are likely to follow the World Bank's recently downgraded assessment.

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Slightly More Dovish BoC Likely As Spare Capacity Grows

- **But the BoC will retain its vague rate guidance.**

We think the BoC is likely to come across somewhat more dovishly next Wednesday when it simultaneously releases the policy statement and Monetary Policy Report at 10amET and follows up with Governor Carney's second last MPR press conference at 11:15amET. Because of its vague nature that we think primarily serves to guide against rate cut expectations, the BoC is likely to retain intact its rate guidance that stipulates that "modest" rate hikes are "likely" "over time", but that "the timing and degree of any such withdrawal will be weighed carefully against global and domestic developments, including the evolution of imbalances in the household sector."

Downward Forecast Revisions

At a minimum, the BoC has to acknowledge that Canadian economic growth has again disappointed its expectations. We are currently tracking about 1.2% annualized 2012Q4 growth compared to the BoC's last forecast in October for 2.5% Q4 growth. Scotia Economics is forecasting 1.9% 2013Q1 growth compared to the BoC's 2.6%, and 2% in Q2 compared to the BoC's 2.6% such that we think the BoC would be justified in lowering its near-term growth assumptions. The BoC may signal some relief that the so called fiscal cliff has been averted in the US, but will probably stick to a warning about protracted uncertainty stemming from the March 1st sequester, mid-February to early-March debt ceiling, and the March 27th expiration of the Continuing Resolution that risks a partial U.S. government shutdown. At the same time, it may signal somewhat greater encouragement toward near-term growth in China's economy and US housing markets.

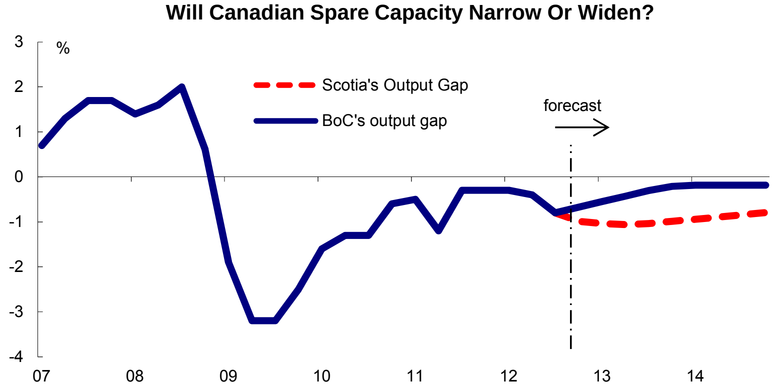
Still Persistent Slack In Job Markets

While the BoC may also signal some encouragement toward recent Canadian job growth, soft growth in aggregate hours worked over recent months is an important offset. The BoC has tended to emphasize that the unemployment rate remains above full employment levels that might prompt greater wage pressures, and that slack exists in terms of the optimality of employment conditions. Examples of this include the significant number of individuals who are working part-time but that would rather be working full-time, and the fact that the labour force participation rate remains a full percentage point below its pre-crisis peak and toward the low end of readings over the past decade. Further, caution is warranted toward future job growth given that more recent job gains have occurred in an environment of very little broad economic growth.

Modest, But Persistent Spare Capacity

The broad implication to growth disappointments is more important in that Canada's spare capacity continues to rise as growth disappoints and that should help to keep inflation pressures at bay. We figure that the output gap equaled about 1% of GDP as at the end of 2012 and that it will remain at or slightly below this level pretty much straight through to the end of 2014 (red line in chart 1). This would be supportive of no rate hikes at any time within the 2013-14 forecast horizon. This stands in contrast, however, to the BoC's forecast over much of 2012 that spare capacity would steadily and consistently close off quarter-after-quarter into late 2012 and then become eliminated by the end of 2013. The BoC might therefore follow up a near-term forecast downgrade with delaying the projected point at which spare capacity is closed off, and thereby moderate the path toward returning to its 2% inflation target. A widening output gap is consistent with what we had forecast in our piece "BoC On Hold For A Long Time Yet, As Spare Capacity Grows" on August 1st last year. True, output gaps are highly imprecise readings and they

Will Canadian Spare Capacity Narrow Or Widen?



Source: Bank of Canada, Statistics Canada, Scotiabank Economics.

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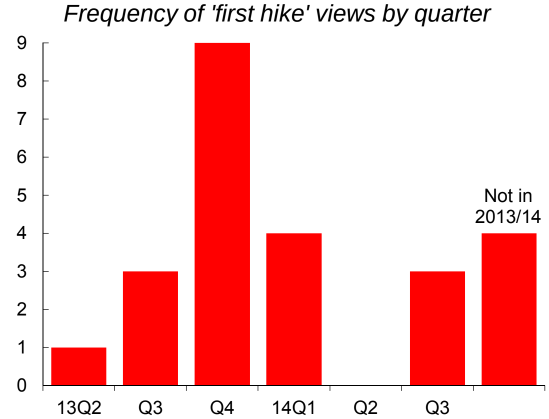
are hardly the sole predictor of inflation risks, but they have their uses and the BoC has long emphasized spare capacity considerations in its policy framework. With spare capacity persisting (indeed slightly rising) while headline inflation has fallen to 0.8% y/y or near zero after taking account of the BoC's own half-point estimate of the CPI's inflation measurement bias, it may be fair to argue that by sticking to a relatively hawkish bias the BoC is reacting in asymmetric fashion to missing its inflation target if interpreted in a strict near-term sense. Next week's inflation reading is likely to remain soft at about 1% y/y or slightly higher, as year-ago base effects put upward pressure upon the reading before those same base effects turn the other way again in the next month's report.

Inflation may bounce higher in future on soft base effects and that may explain some of the BoC's caution as opposed to over-emphasizing current inflation readings, but persistent and growing spare capacity coupled with a strong currency should help keep a lid on any upside risks while growth has been very lacklustre throughout the past year and likely well into 2013 at a minimum. We think Canadian GDP growth will lag behind the US partly as Canadian households are at structural peaks across virtually every variable in contrast to the likelihood that the US unleashes pent-up housing demand, and as the quest for US energy independence may pose a greater challenge to Canadian energy exports into the US than previously.

So why the possible asymmetric policy response to performance on inflation readings? The BoC to date has been focused upon housing excesses and looks through near-term inflation measures in favour of the influences of financial stability considerations upon its inflation target over a longer period of time. A fair debate in that regard, however, concerns the dramatic cooling in new condo sales volumes, softer resale figures, and the weakest household credit growth environment since the very weak 1990s. A consideration in this regard entails whether this is temporary softness like what we saw in the depths of the crisis before housing volumes surged again, or whether the weakness is more permanent this time around as regulatory conditions affecting housing finance have sharply tightened and the country cannot count upon another secular decline in interest rates as characterized the policy and market response to the crisis. Such is the nature of the two-tailed balanced risks to the household sector that the BoC is likely to continue emphasizing.

Diverse BoC Views
Frequency of 'first hike' views by quarter



Source: Bloomberg, Scotiabank Economics.

What Consensus Thinks

Bloomberg's latest consensus survey of BoC calls pulled forward the median call for the resumption of rate hikes into 2012Q4. We offer a few reasons to be careful while assessing this survey. For one, at 24 shops, it's much larger than we had thought the number of shops doing serious Canada work to be. If we stick with the five major domestic banks, then the consensus is skewed toward early 2014. The Bloomberg consensus is also biased toward short-term views, since by the time one goes out five quarters from now, ten forecasters drop out and the sample shrinks down to 14. The median can also mask important details in the descriptive statistics for the sample of opinion. One is the large dispersion of views (chart 2). One shop expects the BoC to hike next quarter just as Governor Carney is handing the baton over to his successor, and we wish the call good luck. At the opposite end, four shops are not forecasting rate moves in 2013-14. In some cases that's because they stop their forecasts before the end of 2014, and in others it is because they predict a 1% o/n rate to the end of 2014.

Scotiabank Economics is in the 2014Q1 camp. In assessing risks to this baseline view, I like a story that puts the fat tail risk on a BoC hold throughout 2013-14 since I think Canada will face spare capacity throughout the forecast horizon, and because the threat of rate hikes to cool housing is being rapidly taken care of as per the evidence of a housing correction and the coolest household debt growth since weakness of the 1990s.

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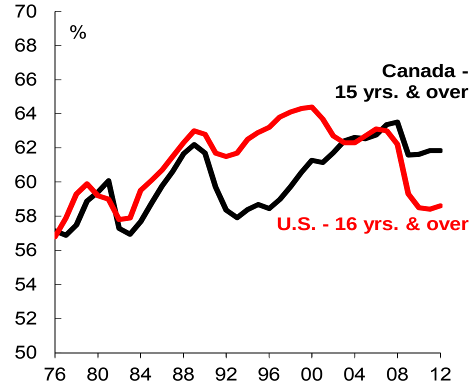
Recovery Delayed In North American Employment-To-Population Ratios

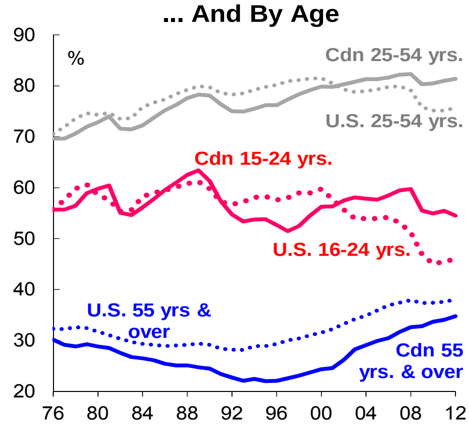
- **Shedding light on another indication of the overall health of the Canadian and U.S. labour markets.**

After spiking to 8.3% in 2009, Canada's unemployment rate has trended downwards, falling to 7.2% last year. Even though the jobless rate has improved, the recovery in the Canadian labour market remains incomplete, as employment gains have not kept pace with growth in the working age population. As a result, Canada's employment-to-population ratio at 61.8% in 2012 *(top chart)* remains well below the pre-recession peak of 63.5% set in 2008. Over the course of the recovery it has only recently begun to rebound, recouping just 0.2 percentage points of the losses. Therefore, Canada's employment-generating capacity has been insufficient in providing enough jobs for a growing population and suggests that the jobless rate has improved in large part due to weaker labour force participation.

Employment-to-Population Ratios In Canada and The U.S. ...



... And By Age



Source: Statistics Canada, BLS, Scotiabank Economics

A similar, however more negative story can be told south of the border. The U.S. employment-to-population ratio deteriorated sharply from 63.1% in 2006 to 58.4% in 2011 — the lowest reading since 1983. Over the past year, as job creation of 1.9% outpaced population growth at 1.5% for the first time since mid-decade, the employment-to-population ratio edged up marginally to 58.6% in 2012. This indicates that the U.S. economy has only begun adding enough jobs to keep pace with population growth, and has been insufficient in gaining back the millions of jobs lost during the financial crisis. This suggests that the improvement over the past two years in the U.S. unemployment rate from 9.6% to 8.1% in 2012 is also the result of a larger share of Americans not entering or dropping out of the labour force.

National figures mask large demographic divergences in both countries. Employment-to-population ratios for youth experienced the sharpest declines since 2008 *(lower chart)*, down over 5.0 percentage points for both Canadians 15-24 to 54.5% and Americans 16-24 to 46.0%. Weakness also persists for individuals 25-54 years, falling from 82.3% to 81.4% and 79.1% to 75.1% , respectively. In contrast, the ratio for those over the age of 55 in Canada continued to edge up to 34.7% (+2.1 ppts), while the ratio for Americans 55 plus fully recovered last year at 38.0%. Furthermore, despite the sharp deterioration in the U.S. employment-to-population ratios after the record high in 2000 — down nearly 6.0 ppts for individuals 25-54 and 14.0 ppts for youth — the ratio for Americans over 55 continued to advance up 6.5 ppts since. The latter is in part due to an aging population and the influx of female workers from the 1970s that have aged into this category.

While some of the weakness in the employment-to-population ratio since the global recession can be explained by demographics, the majority of the decline was cyclical, as the softer economy could not produce enough jobs to meet demand. A long stretch of low employment-to-population due to inadequate job creation will drag down an economy's potential growth rate, standard of living and add to fiscal pressures, as productivity and income from idle workers are lost. Relative to the current size of the population in Canada and the U.S., in order to close the gap in the employment-to-population ratio of 1.7 and 4.5 percentage points since 2008, respectively, the employment level would have to rise by nearly half a million jobs in Canada and 9 million in the United States. Therefore, it could take Canada into the next decade, and much further for the U.S., to recoup these job losses and keep pace with future population growth.

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Russia — Economic Outlook 2013-14

- **Solid growth profile, though underlying vulnerabilities remain.**

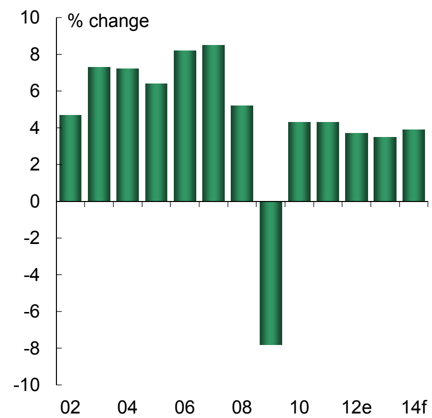
Following a broad-based economic moderation in the second half of 2012 that will likely persist into early-2013, Russia is poised to regain momentum over the medium term, though real GDP growth rates won't likely return to pre-crisis levels (above 5%). We anticipate yearly expansions of 3⅔% and 3½% in 2012 and 2013, respectively, followed by an acceleration to around 4% in 2014 supported by buoyant domestic demand and relatively high oil prices.

In line with the global economy and as a result of a severe summer drought, Russia's output pace slid to 2.9% y/y in the July-September period, after averaging 4.5% in the first two quarters of 2012. Signs point to continued weakness in the fourth quarter, with industrial production growth averaging just 1.9% y/y in October-November (the weakest pace since 2009 Q3), and the manufacturing PMI touching the neutral 50-mark in December after 14 months of expansion. Over the longer-term, Russia will struggle to attract the investment needed to maintain current oil production levels, address infrastructure deficiencies and diversify the economy away from natural resources. Oil and gas shipments account for nearly two-thirds of exports. Last year, Russia's annual production of natural gas fell 2.3% (-6.6% at Gazprom, the state-run exporter), while crude oil and condensate output advanced 1.3%.

Russia's fiscal outlook remains firmly linked to commodity prices. The government will likely report a roughly balanced budget for 2012, after registering a surplus of 1.6% of GDP in 2011. The fiscal account will then fall back into deficit in 2013, with revenues hampered by weaker economic conditions and spending raised by President Putin's pre-election promises. Government expenditures have expanded rapidly in recent years, increasing the non-oil deficit (expected to measure 11% of GDP in 2012) and the oil price needed to balance the budget to unsustainable levels. The break-even crude oil price has skyrocketed from around US$34/bbl in 2007 to $116 in 2012, and is projected to fall only gradually, reaching $105 by 2015. The current account surplus, amounting to 4.5% of GDP in 2012, will narrow over the forecast horizon as strong import growth outpaces exports while the income deficit widens, risking ruble devaluation and, possibly, a twin deficit situation in the years to come.

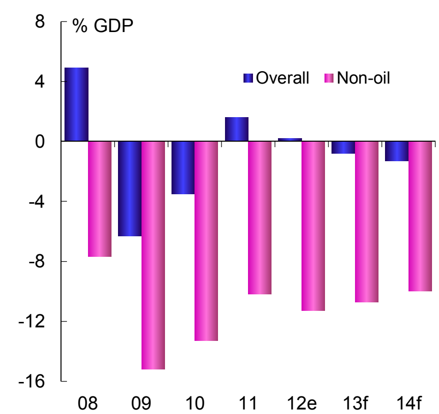
The Russian ruble (RUB) has seen a lengthy appreciation phase since last June, and is now trading near an eight-month high, prompting recent central bank interventions in the currency market. Ruble strength followed the mid-year recovery in oil prices and stabilization of euro crisis-related tensions, and the opening up of the domestic bond market to foreign investors. Weakening pressures are expected to emerge in 2013-14, however, underpinned by the nation's heavy reliance on oil exports, unfavourable business environment, political uncertainties and stagnation in economic reforms. We expect the RUB to close 2013 around 31.5 per US dollar. The authorities aim to transition toward a free-floating currency and inflation-targeting regime over the medium term. Foreign exchange reserves are sizeable, totalling US$486 billion.

Real GDP Growth



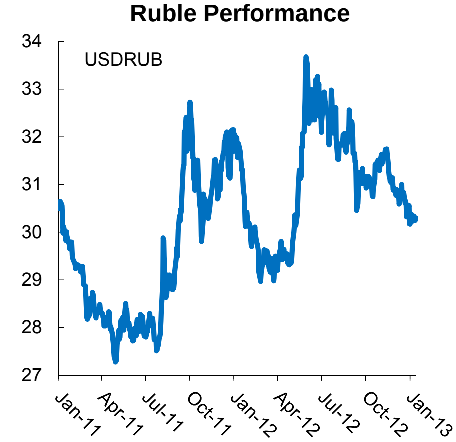
Source: IMF, Scotiabank Economics.

General Government Deficit



Source: IMF, Scotiabank Economics.

Ruble Performance



Source: Bloomberg.

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Taiwan — Economic Outlook 2013-14

- **Taiwan's economic activity is showing signs of a pick-up; real GDP growth to average 3¼% in the next two years.**

Taiwan's economic outlook is improving, though it is unlikely that real GDP growth in the next two years will reach the last decade's average pace of 4½%. We expect Taiwan's output gains to average 3¼% in 2013-14 following an estimated growth of 1.1% in 2012.

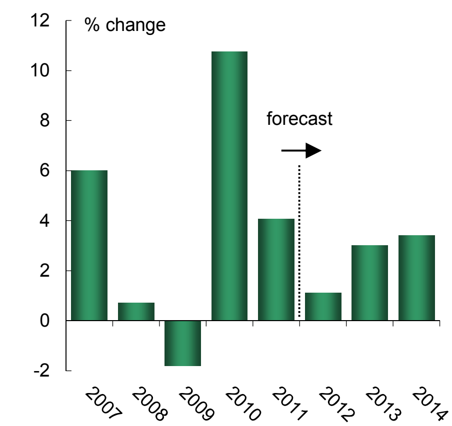
The external sector is showing signs of a tentative recovery, with export orders on the mend since September 2012, translating into increasing exports (in y/y terms) since November. Growth rates in the industrial sector have returned to positive territory following production cutbacks last summer. Since the economy relies heavily on exports (real net exports account for 20% of real GDP), a pick-up in activity will likely become more substantial in the second half of 2013 along with the rebound in global demand. Nevertheless, issues related to Taiwan's diplomatic status limit the longer-term economic benefits of Asian regional economic integration and trade agreements to some extent. Domestic demand is set to improve gradually, as implied by early signs of a pick-up in commercial sales. Household spending growth will be supported by decent employment conditions (the unemployment rate is 4.3%), improving confidence, and increasing real wages, while investment will receive a boost from projects in infrastructure and high-technology industries.

Taiwan's inflation will remain at a manageable level through 2014. Consumer price inflation closed 2012 at 1.6% y/y. A planned increase in electricity prices in October 2013 will be reflected in consumer prices; this, combined with a pick-up in economic momentum, will likely take the headline rate to 2¼% y/y by the end of the year, with the level likely to be maintained in 2014. Monetary policy, set by the Central Bank of the Republic of China (Taiwan) will likely remain unchanged in the coming months as the authorities consider the current policy stance to be conducive to maintaining price and financial stability and promoting economic growth. The benchmark discount rate has been held steady at 1.875% since September 2011. We expect that monetary authorities will respond to rebounding economic activity and steadily accelerating inflation by adopting a gradual monetary tightening bias in the second half of 2013.

The New Taiwan dollar (TWD) will likely remain on a modest appreciating path through 2014, recording annual gains of around 1% vis-à-vis the US dollar. We expect an improvement in domestic economic conditions, progress in relations with the People's Republic of China, and continued substantial current account surpluses (of around 10% of GDP) to provide support to the currency, taking it to USDTWD28.75 by the end of 2013.

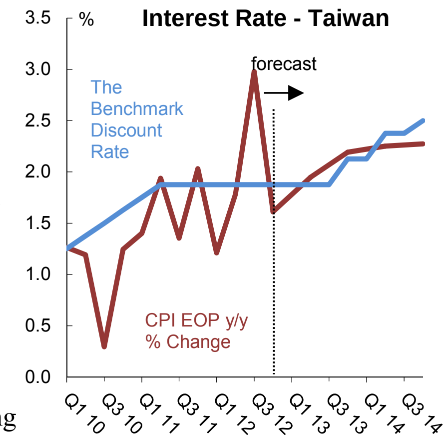
For a more detailed analysis on Taiwan's economic outlook, please refer to the *Executive Briefing* — report, published on January 17th, 2013 at www.scotiabank.com/economics.

Real GDP Growth - Taiwan



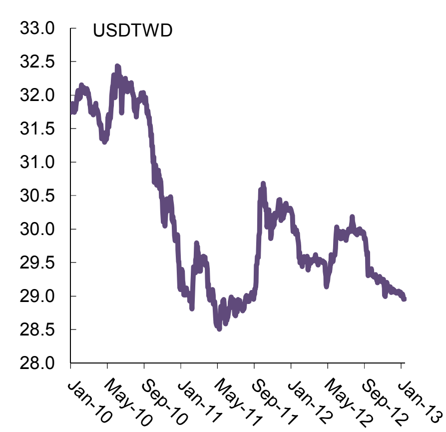
Source: Bloomberg, Scotiabank Economics.

Inflation and Benchmark Interest Rate - Taiwan



Source: Bloomberg, Scotiabank Economics.

New Taiwan Dollar Performance



Source: Bloomberg.

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Foreign Inflows Into Costa Rican Local Bonds

The following article was published on January 17, 2013.

Foreign inflows into local bond markets were the central topic of discussion when we visited San Jose last week. We discuss the costs and benefits of the recent inflows, as well as some of the potential measures the government may adopt to discourage another wave of bond purchases by foreign investors.

The sudden influx of foreign capital in the last quarter of 2012 caught policymakers by surprise and has generated a variety of fears over the implications. In a press conference last month, the President of the Central Bank cited four problems: (1)loss of competitiveness for exporters; (2)inflationary pressures from the purchase of dollars by the central bank; (3)potential volatility in financial markets, and (4)the unnecessary transfer of wealth abroad resulting from international interest rate arbitrage. Even local newspapers are writing about the potential problems from GDNs—usually an arcane topic as far as those outside the finance community are concerned. Those articles focus on the appreciation pressure on the exchange rate, as well as fears of what would happen if foreign investors withdrew money from the bond market as quickly they had entered the market.

Vice-president Liberman recently announced that the government was considering measures to discourage inflows, and was studying controls used by other countries. President Chinchilla followed, calling speculative capital a "weapon of mass destruction." Local news sources have since then reported on a variety of potential measures to discourage flows which will be considered by Congress next week. These include relatively benign actions such as forcing down the local yield curve by directing the policies of state-owned banks and their interaction with government agencies. Nevertheless, the government is also considering more aggressive moves like new taxes on bond returns that accrue to foreigners and minimum reserve requirements for foreign deposits.

The costs and benefits of foreign inflows

Some of the concerns are justified. Most importantly, the currency is already at the bottom of the band established by the central bank, which purchased $1.1bn USD in the fourth quarter of 2012, and an additional $150mn in the first half of this month. Further appreciation of the currency would be detrimental to exporters, as of course it is in most other Latin American countries; more unusually, it could also hurt some private banks whose capital is in dollars. Sterilization for the central bank is costly, considering the tremendous difference between interest rates received on reserves and those paid on local debt. Of course, an alternative solution endorsed by some economists is to liberalize the exchange rate, but that does not seem to be the solution favored by the government.

Another consideration is whether the market could accommodate the flows if foreign investors decided to retrench. Secondary market trading volume across all bonds from all issuers in Costa Rica (not including repos) was on average $23mn USD-equivalent per day in 2012. Liquidity is limited by the lack of on-the-run bonds, as well as the unpredictability of the amounts to be offered in government auctions. This trading volume is of course low by international standards relative to more developed local markets offered by some larger countries, but nevertheless is probably sufficient to permit the exit of foreign investors over a longer period of time.

While we don't know the identities of Costa Rican investors, our experience in other Latam countries suggests that foreign investors into local long-term bonds are generally pension funds and other indexed institutional funds with a long-term horizon. In fact, it is that long-term horizon that allows them to invest in the face of limited secondary market liquidity in the first place. Because these investors are accustomed to the political and economic risks inherent in emerging market countries, they do not necessarily pull out in times of trouble. For example, foreign holdings of Peruvian local bonds remained constant in the electoral period

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that culminated in a surprising victory for leftist President Humala. Local investors and local businesspeople were more worried than foreigners, implying that foreigners could actually stabilize the bond market because their diversification enables them to better cope with certain types of country-specific risks. Theoretically, the presence of foreign investors should expose local yields to global financial variables; nevertheless, we have found that yields in Latam countries with little foreign participation were just as affected by global shocks such as the 2008 crisis as countries with significant foreign presence, suggesting that shocks to interest rates are transmitted through a variety of channels. (For an overview of recent academic research as well as case studies of foreign entrance into Peru and Mexico, see our article, "Foreign investors in Latam local bond markets," September 9, 2011).

We are also surprised that neither local press accounts nor government statements seem to acknowledge the contribution of foreign inflows towards financing a significant government deficit at a yield of 9% to 12% in the government's own currency. While that yield if of course much higher than the sub-4% level which the country pays on its Eurobond, we should recall that inflation in Costa Rica is not only high, but also uncertain. The country stabilized its inflation rate at around 5% only three years ago, whereas prior to that period, inflation was in the double-digits. Issuing in colones rather than in dollars today will give the government more flexibility in paying its debts in the future. To the government's credit, it has distinguished, in its statements, between speculative short-term flows and long-term investments. Preserving that distinction in subsequent policy will be critical for maintaining the flow of new FDI that the economy has long relied upon.

Finally, it is not obvious to us that foreign investors are the biggest source of the problem. The amount of recent central bank dollar accumulation — 1.25bn — seems to us far larger than the amount of GDNs that could have been created in the same period. That arithmetic confirms anecdotal evidence that local Costa Rican investors had been switching from dollar instruments into colones at the end of last year.

Conclusion

Despite fears of new taxes and other capital controls, bond prices have not fallen. Instead, yields have actually compressed an additional 70bp over the last five trading sessions, we think largely because part of the government's strategy to combat additional inflows is to force down interest rates. They can do this by having public agencies fund state-owned banks at lower rates and also by ordering those banks to pay lower deposit rates. In addition, in the communique released yesterday about the Treasury auction scheduled for next Monday, Hacienda published reference prices that are even higher than we saw in the secondary markets yesterday. In particular, the reference yield for the 2018s is 7.8% even though yesterday they were trading at 8.3%

In our opinion, the investment proposition for foreign investors has changed. Before, investors could count on a significant carry with an exchange rate that would remain pegged at the bottom of the band. Now, there is a different upside, but also more downside. Investors must balance the potential for further gains from interest rate compression against the possibility that the government will enact measures that deprive foreign investors of those gains. In the near-term, continued reduction in interest rates could provide an opportunity for some investors to reduce their exposure without significant disruptions to the market. We expect the government to announce the particular measures it has in mind shortly. Congress will take up the bill on Monday, though it could be several weeks before the legislation is fully debated and put to a vote.

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France Labour Reform, Another Step Closer To Germany

Alongside Germany, France plays a key role in the foundation and the evolution of the European Union and the euro zone. However, over recent years, there have been multiplying signs of divergence between these two pillar states, both on the fiscal and the competitiveness sides. At the end of last year, this situation raised worries and fuelled many critical articles and comments in the press, even among the political circle of France's main economic partner, Germany.

A trend of re-convergence now appears to be taking place. While it can be argued that the pace remains slow, the trend is obvious. In a previous article in this publication ("*France's Reform Agenda: Forging a New Path*", Global Views 11/23/12), we highlighted the determination of the new government to regain credibility on the fiscal side through the implementation of a number of measures (i.e., the adoption of extra budget measures this past summer in order to meet budget deficit reduction targets, the vote on the EMU "fiscal pact", the implementation of the independent Haut Conseil des Finances — the High Council of Public Finance — to check the execution of budget policy) but also on the competitiveness side. Indeed, through the "competitiveness pact" in early November, President Hollande is probably the first French left-wing leader to opt for a "supply" rather than a "demand" side policy to boost growth.

However, while the competitiveness pact is a first step in addressing the high cost structure of French industry, it was to be complemented by the introduction of a labour market reform. Indeed, the functioning of the labour market plays a key role in the competitiveness process and the agreement reached one week ago between French employers and a number of unions is a significant change.

France looking for stronger corporate cohesion and flexibility

- In the case of France, reaching an agreement between social partners on numerous aspects of the labour market without the need to involve the government already constitutes in our view a major achievement. It suggests a possible changing pattern in the social dialogue between employers and unions, which over the past few decades has been always full of conflict and tensions.
- Beyond the numerous changes that this labour reform would involve (i.e., easier process of engaging in restructuring plans, generalization of the healthcare benefit for employees, changes in taxation on labour contracts, stronger securisation on unemployment benefit…) we would specifically mention two points, illustrating that France is once again trying to converge towards Germany:
    - The first is linked to changing the capacity of both employees and employers to "work together". This is indeed seen as a key element in establishing consensus decisions in order to deal with competitiveness constraints. In that sense, some employee participation in the decision-making process is often seen as a basis of the German social model and an asset for corporations. The present reform moves in this direction with the need for French corporations to add employees to their boards of directors (1 for 12 administrators, 2 beyond this number).
    - The second is by offering greater flexibility on the working week at the corporate level. It will be now possible for French companies facing severe difficulties to either lower wages or adjust the work week in order to preserve employment for a period of up to two years. It is a significant change in a country where the "35-hour work week" has been considered a key social benefit. On this point too, France is converging towards Germany. Looking to the Eurostat Labour Force survey, because of the introduction of the "35-hour work week" in the late 1990's in France, the actual working week hours in the manufacturing sector has declined from around 41 hours in 1999 (the same as in Germany at that time) to around 38 hours per week in 2003. Since then, it has remained roughly stable, even during the 2009 crisis. In Germany, this number remained stable around 41 hours up to 2008 and then dropped sharply to 39 hours in 2009 because of the recession. It has since almost completely recovered. This greater flexibility has allowed the German unemployment rate to remain almost stable despite the crisis in 2009 and a deeper recession compared to France. Meantime, the jobless rate increased significantly in France.

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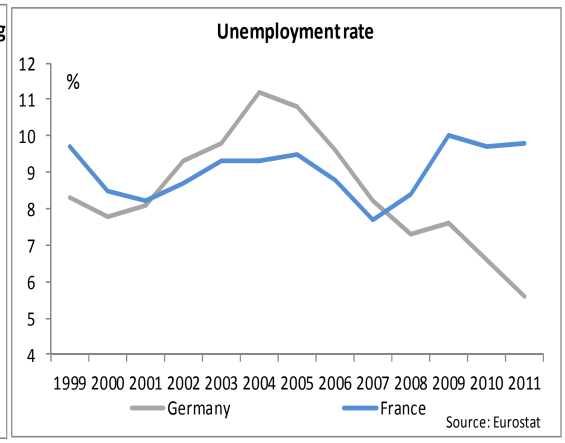
Chart 1: Hours worked flexibility and unemployment rate



Towards a quick implementation

- This agreement between large employers and trade unions now has to be enacted by legislation in order to become effective. In this context, there is always the possibility of seeing some changes or dilutions during the parliamentary process. Some left-wing unions which did not sign the agreement as well as parliamentarians have already indicated that this reform opens the door to too much flexibility for corporations.
- However, we are optimistic regarding the capacity of the government to go through and to get the legislative support for virtually the full implementation of the agreement. The experience of the "competitiveness pact" at the end of last year points in this direction. While this pact also faced some resistance from more left-wing members of the Socialist party, the government forced its implementation by parliament in just a few weeks' time, thereby cutting off any critics and avoiding the implementation of any amendments which could have weakened the program.

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S&P 500 Q4-12 Earnings Season

This article was published on January 15, 2013.

S&P 500 Q4-12 Earnings Season Preview

- The U.S. Q4 earnings season is gaining traction this week with 38 S&P 500 companies expected to report. Despite the headwinds encountered last quarter (Europe/China/hurricane Sandy), S&P 500 earnings and top-line expansion is expected to continue in Q4. Consensus is calling for S&P 500 earnings to expand 6.7% YOY to US$25.32 in Q4, supported by modest top-line growth (2.9%) and margin expansion (9.0% vs. 8.9% in Q3). Exhibit 1 provides key numbers for the S&P 500 Q4 earnings season.

Exhibit 1 - S&P 500 EPS: Q4/12 Consensus Estimates

	Q4/12 E			Top-Line	Sector
	$	QOQ	YOY	(YOY%)	Weighting
S&P 500	**25.32**	**5.5%**	**6.7%**	**2.9%**	**100%**
Energy	11.29	11%	12%	6%	11%
Materials	2.97	-7%	59%	4%	4%
Industrials	5.57	-3%	3%	2%	10%
Discretionary	6.24	9%	12%	7%	12%
Staples	5.77	1%	4%	4%	11%
Health Care	8.09	2%	9%	1%	12%
Financials	4.05	-5%	0%	-7%	16%
Technology	9.59	39%	4%	5%	19%
Telecom	1.39	-33%	15%	6%	3%
Utilities	2.42	-34%	4%	10%	3%

Source: Scotiabank GBM, S&P, Thomson Financial, Bloomberg.

- **EPS/sales momentum improving**. Compared to the previous two quarters, S&P 500 quarterly EPS and sales figures should display firmer momentum in Q4. On the earnings front, the pace of growth is picking up speed with Q4 EPS expected to grow 6.7% YOY compared with -5.1% in Q3-12 and +2.3% in Q2-12. On the revenue side, the top-line should expand 2.9% YOY in Q4 vs. 1.1% in Q3 and 1.8% in Q2.
- On a trailing basis, S&P 500 earnings and revenue per share are en route to hit record high levels at US$99.00 and US$1,085, respectively.
- **Sectors**. All 10 S&P 500 sectors are expected to report positive YOY earnings growth. Based on bottom-up forecasts, top earnings growers in Q4 should be Materials (driven by Chemicals), Telecom, Discretionary (strength in auto/home builders), and Energy. On the other hand, Financials (strength in capital markets/divers. financials), Staples, Utilities and Technology (weakness in semis) should deliver sub-5% YOY earnings growth.
- **We believe current bottom-up EPS forecasts are achievable given that expectations have been cut sharply in the past three months, preliminary Q4 EPS numbers are exceeding lowered forecasts, and a 6% YOY drop in energy prices should provide support.**
- **Q4 EPS forecasts slashed**. Q4 earnings forecasts have been sharply reduced in the past three months, reflecting modest global economic growth (Europe/Asia), the negative impacts from hurricane Sandy and the uncertainty surrounding the fiscal cliff. S&P 500 Q4 EPS has been reduced 5.8% since September (was at US$26.89), cutting the expected earnings growth rate by about half (from 13% YOY to 6.7% currently). Although Q4 EPS stands close to the record high of US$25.43 hit in Q2-12, the bar has clearly been set lower in Q4. Negative revisions were widespread in the past three months with Materials, Technology and Financials suffering the sharpest cuts. Energy was the only sector enjoying some modest positive revisions.

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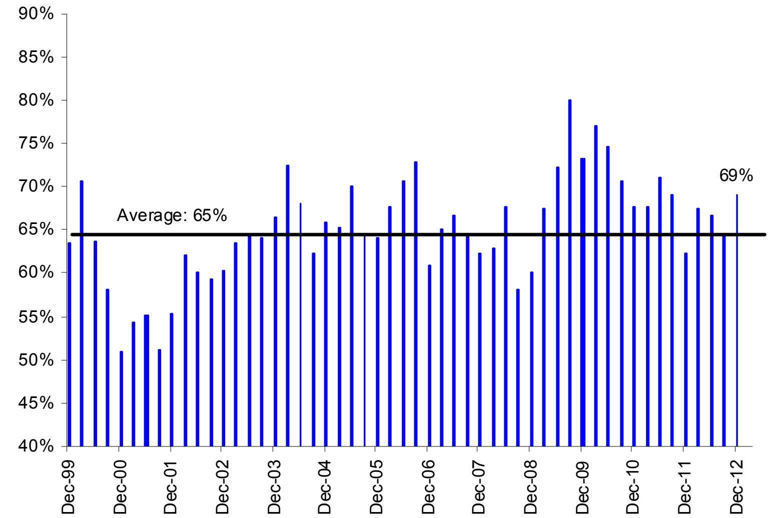
- **Preliminary EPS numbers**. Earnings figures released so far are slightly exceeding lowered forecasts. Of the 29 S&P 500 companies having reported, 69% beat on earnings and 46% on the top-line. Although this is still quite early in the earnings season, the preliminary earnings beat ratio stands slightly above its historical average of 65% (Exhibit 2).

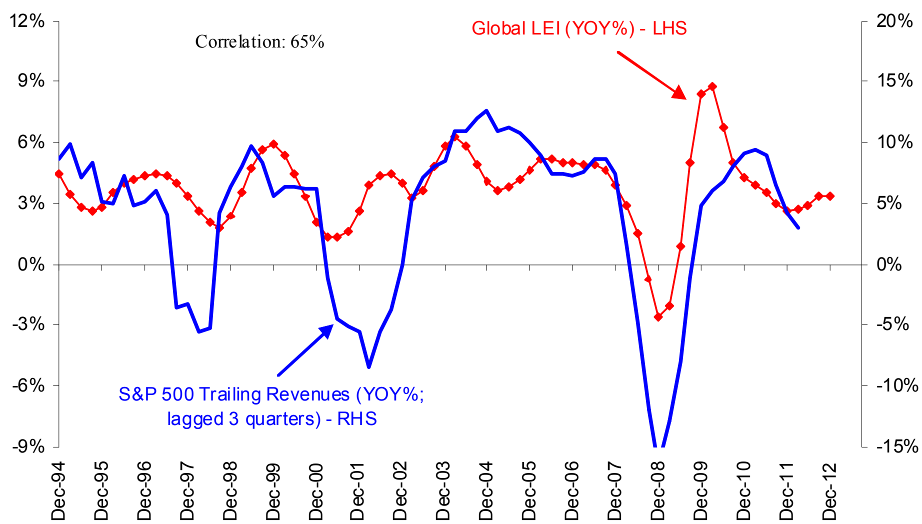
Exhibit 2 - S&P 500 Earnings Beat Ratio (Quarterly)



Source: Scotiabank GBM, Bloomberg.

- With global macro data expected to improve further in coming months, S&P 500 top-line and earnings growth should extend in coming quarters. Exhibit 3 highlights the global leading economic indicators and the S&P 500 top-line growth (lagged by three quarters). With the recent pick-up in the global LEI, we would expect S&P 500 top-line to continue to expand in coming quarters. **2013 EPS expectations are somewhat elevated, but as long as earnings are trending higher, equities should remain well supported.**

Exhibit 3 - Global LEI vs. S&P 500 Revenue Growth



Source: Scotiabank GBM, S&P, OECD.

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Small Caps: High Hopes for Q4 Earnings Season

- According to Standard and Poor's, S&P 600 Q4 EPS forecasts currently stand at US$6.20. This is suggesting an 11% sequential improvement and 18.5% YOY increase. Although U.S. macro data improved in Q4, we doubt U.S. small caps will be able to deliver.
- The NFIB Small Business Optimism index is deteriorating since last April with the Earnings Trend and Sales Expectations components going down. Moreover, the ISM trend (rolling 12-month) is still pointing toward softer earnings growth in the small cap space. Until the ISM trend reverses, we would expect earnings growth to moderate.
- **Another miss.** If U.S. small caps fail to meet earnings expectations this quarter, the string of misses will extend to seven. In the past two years, small caps posted stellar performance despite missing forecasts on a regular basis. But with relative valuation getting stretched vis-à-vis large caps, small caps outperformance could be challenged going forward.
- **Sectors**. All 10 S&P 600 sectors are expected to report positive earnings growth in Q4, with Technology, Telecom, and Energy assuming earnings leadership.

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Key Data Preview

CANADA

CPI (Jan. 25) slumped through H2 2012, falling to 0.8% y/y in November in a continuation of the nose-dive which started when CPI dropped to 1.2% y/y in May. Scotiabank expects a bounce to the lofty heights of 1.1% y/y in December but chalk that up to base effects: CPI typically falls in month-on-month terms during December and we don't expect this year to be any different. Our forecast for month-on-month CPI is for a soft -0.3% print with gasoline prices (-2.8% m/m) compounding the seasonal softness in the clothing and recreation, education and reading segments. We anticipate that the year-on-year figure will rise simply because we expect that this December's CPI decline will be less extreme than Dec. 2011's -0.6% m/m drop. Indeed, base effects would cause even a flat print to result in a decent bump in CPI y/y (see chart).

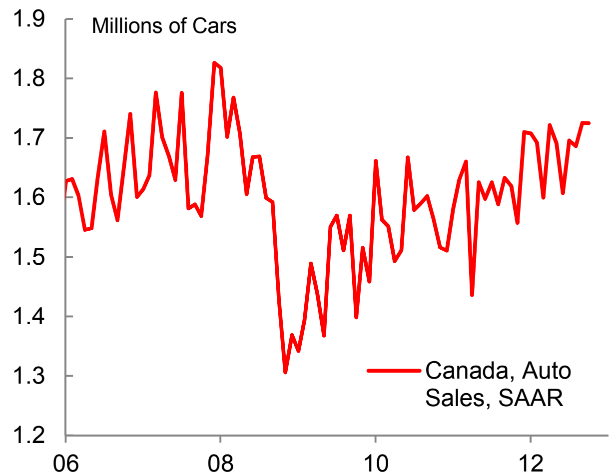
Canadian CPI Scenarios:

NSA M/M		NSA Y/Y
-0.5%	→	0.9%
-0.4%	→	1.0%
-0.3%	→	1.1%
-0.2%	→	1.2%
-0.1%	→	1.3%
0.0%	→	1.4%
0.1%	→	1.5%
0.2%	→	1.6%
0.3%	→	1.7%

Source: Scotiabank Economics, Statistics Canada

Scotiabank forecasts a 0% m/m print on **retail sales** for November (Jan. 22), which face the difficult task of outperforming the very strong October number (retail sale came in at +0.7% m/m in Oct.). Retail sales confront a slump in gasoline prices (-6.8% m/m in November) and what we think was a soft month in terms of new vehicle sales after a red hot October. The U.S. experienced the latter phenomenon in November as well, and yet sales at car dealers were up strongly there (1.6% m/m) so generally, it seems that increased activity in the autos sector is having a favorable effect on new vehicle sales even in slightly softer months. As a mitigating factor, Canadian imports of consumer goods were up fairly strongly in November (+1%), so there's reason to expect some buoyancy in the sector.

Canada Auto Sales: Gradual Recovery

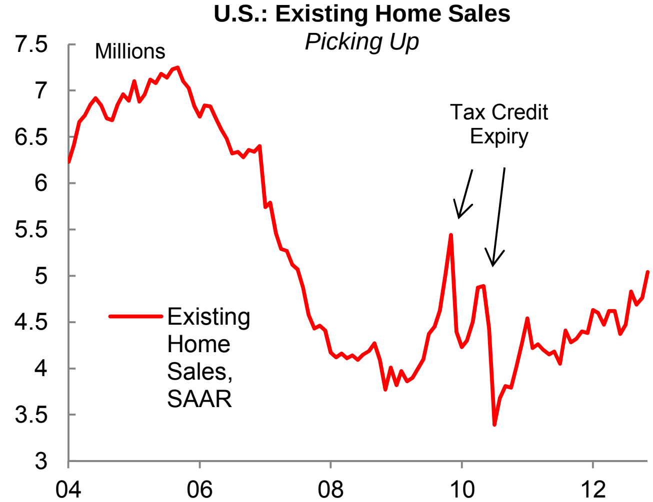


Source: Statistics Canada, Scotiabank Economics

UNITED STATES

Two data points on the U.S. **housing industry** will be released — and closely watched for corroboration that the December surge in housing starts in fact exemplifies a broader pick up in the long-beaten-down U.S. housing sector. Existing home sales (Jan. 22) increased to their highest level since the crisis started in November (notwithstanding the dates surrounding the expiration of the first time home buyers' tax credit), and continued strength in leading indicators for the housing sector leave Scotiabank optimistic for a repeat performance. We're looking for a 5.1m annualized pace of sales. Our call is premised on solid increases in pending home sales and mortgage purchase applications in November, while strength in the NAHB index has us also expecting strength in new home sales (Jan. 25), which we forecast will increase to 385k SAAR.

U.S.: Existing Home Sales
Picking Up



Source: Statistics Canada, Scotiabank Economics

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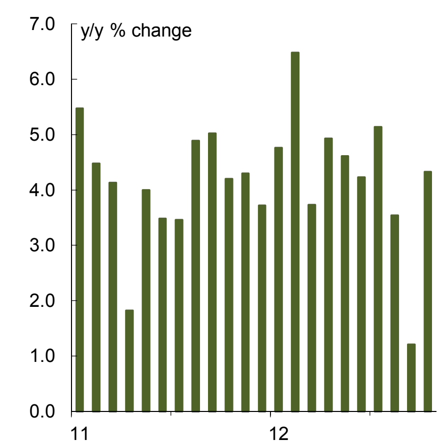
EUROPE

The first estimate of UK GDP for the fourth quarter is likely to be close to zero (more likely on the negative side, at -0.1% q/q). The economy surged by 0.9% q/q during Q3 — boosted by the London Olympics and the bounce back from the lost working day in Q2. Hence payback in Q4 is inevitable. However, there is also likely to be a drag on growth from industrial production. There was a substantial drop in North Sea oil extraction during September and October due to prolonged Autumn maintenance. That will subtract around a third of a percentage point from overall GDP growth. The flipside is that construction output had a decent start to Q4. More clement weather than experienced over the last two winters may even mean that this sector is surprisingly positive. We note, however, that the weight of construction in GDP is small (around 7%). The services sector (which accounts for 76% of the economy) looks destined to subtract from growth too. The services sector PMI has deteriorated somewhat of late. This points to a small contraction in this sector and hence overall GDP. Stripping out the one-off disturbances, the underlying pace of growth probably remains mildly positive — a trend which we expect to be maintained throughout 2013. The average forecasting error of the consensus for this measure has been around 0.4 percentage points since the Lehman Brothers collapse. Given the tendency to surprise, this means that the outcome could be anywhere between -0.5% q/q and +0.3% q/q.

LATIN AMERICA

After a strong deceleration in the global economic activity indicator (IGAE) in September (1.21% y/y), the Mexican economy posted a robust rebound, expanding by 4.3% y/y in October. This suggests that the economy remained on a strong path during the last quarter of 2012. November's IGAE will be released on January 24th and we expect it to grow by 3.6% y/y. The service sector, which accounts for more than 60% of the Mexican economy, expanded by 4.1% y/y in October, while the industrial and agricultural sectors gained 3.6% and 2.8% y/y, respectively. We maintain our view that the Mexican economy advanced by 4.0% in 2012 overall and will decelerate slightly to 3.9% in 2013. Additionally, November retail sales will be released on January 23rd and we anticipate a strong performance (6.7% y/y) as a result of the "buen fin" (the Mexican equivalent to "Black Friday" in the US).

Mexican Activity Indicator (IGAE)

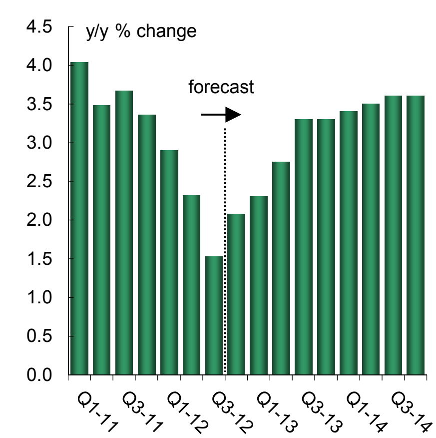


Source: Thomson Reuters.

ASIA

South Korea will release Q4 2012 real GDP data on January 23rd. We estimate that the country's output growth accelerated to 1.9% y/y (0.7% q/q) from the third-quarter pace of 1.5% (0.1% q/q), taking the total 2012 growth to 2.2%. South Korean growth will likely continue to gain momentum in 2013-14 reflecting gradually improving global demand conditions, with the economy expanding by 3.0% this year and by 3½% in 2014. While we expect a pickup in household consumption to become evident in 2013, the external sector is highly significant for South Korea, as net exports continue to contribute positively to real GDP growth. To the nation's benefit, in a time when global growth is almost exclusively driven by emerging markets, close to 60% of South Korean exports are directed towards developing economies. China is the most important export destination (accounting for a quarter of all Korean shipments abroad); therefore, that economy's ongoing revival will be a significant factor for the South Korean economic outlook.

Real GDP Growth - South Korea



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of January 21 - 25

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/21	08:30	Wholesale Trade (m/m)	Nov	0.3	0.5	0.9
MX	01/21	09:00	Unemployment Rate (%)	Dec	--	5.0	5.1
CA	01/22	08:30	Retail Sales (m/m)	Nov	0.0	-0.1	0.7
CA	01/22	08:30	Retail Sales ex. Autos (m/m)	Nov	0.1	0.1	0.5
US	01/22	10:00	Existing Home Sales (mn a.r.)	Dec	5.1	5.1	5.0
US	01/22	10:00	Existing Home Sales (m/m)	Dec	2.1	1.2	5.9
US	01/22	10:00	Richmond Fed Manufacturing Index	Jan	--	--	5.0
US	01/23	07:00	MBA Mortgage Applications (w/w)	JAN 18	--	--	15.2
CA	01/23	09:00	Teranet - National Bank HPI (y/y)	Dec	--	--	3.4
MX	01/23	09:00	Retail Sales (INEGI) (y/y)	Nov	6.7	3.3	3.5
CA	01/23	10:00	**BoC Interest Rate Announcement (%)**	**Jan 23**	**1.00**	**1.00**	**1.00**
US	01/24	08:30	Continuing Claims (000s)	JAN 12	3200	3200	3214
US	01/24	08:30	Initial Jobless Claims (000s)	JAN 19	350	360	335
MX	01/24	09:00	Bi-Weekly Core CPI (% change)	Jan 15	--	0.2	0.0
MX	01/24	09:00	Bi-Weekly CPI (% change)	Jan 15	0.4	0.3	0.1
MX	01/24	09:00	Global Economic Indicator IGAE (y/y)	Nov	3.6	--	4.3
US	01/24	10:00	Leading Indicators (m/m)	Dec	--	0.3	-0.2
CA	01/25	08:30	Core X8 CPI (m/m)	Dec	-0.5	-0.2	0.0
CA	01/25	08:30	Core X8 CPI (y/y)	Dec	1.2	1.5	1.2
CA	01/25	08:30	CPI, All items (m/m)	Dec	-0.3	-0.2	-0.2
CA	01/25	08:30	CPI, All items (y/y)	Dec	1.1	1.2	0.8
CA	01/25	08:30	CPI SA, All items (m/m)	Dec	0.2	0.2	-0.2
CA	01/25	08:30	Core CPI SA, All items (m/m)	Dec	0.3	0.3	0.0
MX	01/25	09:00	Trade Balance (US$ mn)	Dec P	--	--	-1272.7
US	01/25	10:00	New Home Sales (000s a.r.)	Dec	385	385	377

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	01/21	02:00	Producer Prices (m/m)	Dec	--	0.0	-0.1
UK	01/22	04:30	PSNB ex. Interventions (£ bn)	Dec	16.0	15.2	17.5
EC	01/22	05:00	ZEW Survey (Economic Sentiment)	Jan	--	--	7.6
GE	01/22	05:00	ZEW Survey (Current Situation)	Jan	--	6.2	5.7
GE	01/22	05:00	ZEW Survey (Economic Sentiment)	Jan	15.0	12.0	6.9
TU	01/22	07:00	**Benchmark Repo Rate (%)**	Jan 22	**5.50**	**5.50**	**5.50**
UK	01/23	04:30	Average Weekly Earnings (3-month, y/y)	Nov	1.5	1.6	1.8
UK	01/23	04:30	Employment Change (3M/3M, 000s)	Nov	0.0	28.0	40.0
UK	01/23	04:30	Jobless Claims Change (000s)	Dec	5.0	0.5	-3.0
IT	01/23	05:00	Current Account (€ mn)	Nov	7.8	--	-245.0
EC	01/23	10:00	Consumer Confidence	Jan A	--	-26.0	-26.5
FR	01/24	03:00	Manufacturing PMI	Jan P	--	44.9	44.6
FR	01/24	03:00	Services PMI	Jan P	--	45.5	45.2
SP	01/24	03:00	Unemployment Rate (%)	4Q	--	26.0	25.0
GE	01/24	03:30	Manufacturing PMI	Jan A	--	46.8	46.0
GE	01/24	03:30	Services PMI	Jan A	--	52.0	52.0
EC	01/24	04:00	Current Account (€ bn)	Nov	--	--	3.9
EC	01/24	04:00	Composite PMI	Jan A	--	47.5	47.2
EC	01/24	04:00	Manufacturing PMI	Jan A	--	46.6	46.1
EC	01/24	04:00	Services PMI	Jan A	--	48.0	47.8
GE	01/25	04:00	IFO Business Climate Survey	Jan	103.4	103.0	102.4
GE	01/25	04:00	IFO Current Assessment Survey	Jan	107.5	107.3	107.1
GE	01/25	04:00	IFO Expectations Survey	Jan	99.5	98.5	97.9
UK	01/25	04:30	GDP (q/q)	4Q A	-0.1	-0.1	0.9
UK	01/25	04:30	Index of Services (m/m)	Nov	-0.2	-0.1	0.1
FR	01/25	12:00	Jobseekers Net Change (000s)	Dec	22.0	22.5	29.3

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of January 21 - 25

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	01/21	01:00	Machine Tool Orders (y/y)	Dec F	--	--	-27.5
TA	01/21	03:00	Export Orders (y/y)	Dec	--	9.1	11.1
HK	01/21	03:30	CPI (y/y)	Dec	3.7	3.8	3.7
SK	01/21	06:59	Discount Store Sales (y/y)	Dec	--	--	-1.7
SK	01/21	06:59	Department Store Sales (y/y)	Dec	--	--	9.1
TA	01/21	19:30	Unemployment Rate (%)	Dec	4.3	4.3	4.3
JN	01/21	23:30	All Industry Activity Index (m/m)	Nov	--	-0.5	0.2
JN	01/22	00:00	Coincident Index CI	Nov F	90.1	--	90.1
JN	01/22	00:00	Leading Index CI	Nov F	91.9	--	91.9
JN	01/22	00:00	New Composite Leading Economic Index	Nov F	--	--	91.9
JN	01/22	00:00	Supermarket Sales (y/y)	Dec	--	--	-0.5
MA	01/22	04:00	Foreign Reserves (US$ bn)	Jan 15	--	--	139.7
JN	01/22	07:59	**BoJ Target Rate (%)**	Jan 22	**0.10**	**--**	**0.10**
AU	01/22	19:30	Consumer Prices (y/y)	4Q	2.5	2.4	2.0
AU	01/22	19:30	Consumer Prices (q/q)	4Q	0.5	0.4	1.4
SI	01/23	00:00	CPI (m/m)	Dec	0.2	0.4	0.1
SI	01/23	00:00	CPI (y/y)	Dec	3.7	3.8	3.6
TA	01/23	03:00	Commercial Sales (y/y)	Dec	--	--	1.3
TA	01/23	03:00	Industrial Production (y/y)	Dec	--	6.4	5.9
MA	01/23	04:00	CPI (y/y)	Dec	1.3	1.4	1.3
NZ	01/23	16:30	Business NZ PMI	Dec	--	--	48.8
SK	01/23	18:00	GDP (q/q)	4Q P	0.7	0.5	0.1
SK	01/23	18:00	GDP (y/y)	4Q P	1.9	1.9	1.5
JN	01/23	18:50	Merchandise Trade Balance (¥ bn)	Dec	--	-522.8	-954.8
JN	01/23	18:50	Adjusted Merchandise Trade Balance (¥ bn)	Dec	--	-760.9	-868.5
JN	01/23	18:50	Merchandise Trade Exports (y/y)	Dec	--	-4.2	-4.1
JN	01/23	18:50	Merchandise Trade Imports (y/y)	Dec	--	1.7	0.9
CH	01/23	20:45	HSBC Flash China Manufacturing PMI	Jan	52.0	--	50.9
PH	01/24	03:00	**Overnight Borrowing Rate (%)**	Jan 24	**3.50**	**3.50**	**3.50**
HK	01/24	03:30	Exports (y/y)	Dec	--	9.1	10.5
HK	01/24	03:30	Imports (y/y)	Dec	--	8.3	9.0
HK	01/24	03:30	Trade Balance (HK$ bn)	Dec	--	-50.4	-44.1
TH	01/24	06:59	Customs Exports (y/y)	Dec	--	21.4	26.9
TH	01/24	06:59	Customs Imports (y/y)	Dec	--	6.0	24.5
TH	01/24	06:59	Customs Trade Balance (US$ mn)	Dec	--	-1200.0	-1454.2
VN	01/24	06:59	CPI (y/y)	Jan	--	--	6.8
JN	01/24	18:30	National CPI (y/y)	Dec	-0.2	-0.2	-0.2
JN	01/24	18:30	Tokyo CPI (y/y)	Jan	--	-0.6	-0.6
PH	01/24	20:00	Imports (y/y)	Nov	--	--	4.3
PH	01/24	20:00	Trade Balance (US$ mn)	Nov	--	--	-832.0
SI	01/25	00:00	Industrial Production (m/m)	Dec	--	-0.7	1.9
SI	01/25	00:00	Industrial Production (y/y)	Dec	--	-4.5	3.1
VN	01/25	06:59	Exports (y/y)	Jan	--	--	18.3
VN	01/25	06:59	Imports (y/y)	Jan	--	--	7.1
VN	01/25	06:59	Industrial Production (y/y)	Jan	--	--	5.9

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
BZ	01/23	07:30	Current Account (US$ mn)	Dec	--	--	-6265.0

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of January 21 - 25

North America

Country	Date	Time	Event
US	01/22	11:00	U.S. Fed To Purchase USD1.00-1.50 Bln Notes
US	01/23	11:00	U.S. Fed To Purchase USD1.25-1.75 Bln Notes
US	01/24	11:00	U.S. Fed To Purchase USD2.75-3.50 Bln Notes
US	01/24	13:00	U.S. to Sell 10-Year TIPS
US	01/25	11:00	U.S. Fed To Purchase USD3.00-3.75 Bln Notes

Europe

Country	Date	Time	Event
NE	01/21	05:00	Netherlands to Sell Up to EUR3 Bln 96-Day Bills
NE	01/21	05:00	Netherlands to Sell Up to EUR2 Bln 156-Day Bills
FR	01/21	08:50	France to Sell Bills
NE	01/22	04:00	Netherlands to Sell 1% 2014 Bonds
NE	01/22	04:00	Netherlands to Sell 3.75% 2042 Bonds
SP	01/22	04:30	Spain to Sell 3-Month and 6-Month Bills
UK	01/22	05:30	U.K. to Sell GBP1.75 Bln 4% 2022 Bonds
SZ	01/22	05:30	Switzerland to Sell 3-Month Bills
GE	01/22	05:30	Germany to Sell EUR1 Bln 0.1% I/L 2023 Bonds on Jan. 22
SW	01/23	05:03	Sweden to Sell 10-Year Bonds
UK	01/25	06:10	UK to Sell Bills

Asia Pacific

Country	Date	Time	Event
CH	01/22	22:00	China to Sell 7-Year Bonds
JN	01/22	22:35	Japan to Sell 2-Month Bills
NZ	01/23	20:30	New Zealand Plans to Sell Bonds
JN	01/23	22:35	Japan to Sell 3-Month Bills
JN	01/23	22:45	Japan to Sell 20-Year Bonds

Latin America

Country	Date	Time	Event
BZ	01/22	10:00	Brazil to Sell I/L Bonds due 8/15/2018 - NTN-B
BZ	01/22	10:00	Brazil to Sell I/L Bonds due 8/15/2022 - NTN-B
BZ	01/24	08:30	Brazil to Sell Bills due 04/01/2014 - LTN
BZ	01/24	08:30	Brazil to Sell Bills due 04/01/2015 - LTN
BZ	01/24	08:30	Brazil to Sell Bills due 07/01/2016 - LTN

Source: Bloomberg, Scotiabank Economics.

Events for the week of January 21 - 25

North America

Country	Date	Time	Event
US	01/21		U.S. Presidential Inauguration
CA	01/23	10:00	Bank of Canada Rate
US	01/23	10:00	IMF Releases World Economic Outlook update
CA	01/23	11:15	Bank of Canada Governor Carney Gives Press Conference
CA	25-26 JAN		Ontario Liberals Leadership Convention

Europe

Country	Date	Time	Event
GE	01/20		Lower Saxony holds State Election
EC	20-21 JAN		EU General Affairs Ministers Hold Meeting in Ireland
EC	01/21	06:00	German Bundesbank publishes its monthly report
EC	01/21	07:15	Irish EU Ambassador Speaks at CEPS Think Tank
IT	01/21	09:00	Italy's Finance Minister Grilli Speaks Before EU Parliament
EC	01/21	11:00	Euro-Area Finance Ministers Meet in Brussels
EC	01/21	13:00	Bundesbank's Weidmann speaks in Eschborn
EC	01/22	03:00	EU-27 Finance Ministers Meet in Brussels
TU	01/22	07:00	**Benchmark Repo Rate**
GE	01/22	08:15	Merkel, Hollande, EU's Schulz Take Part in Elysee Treaty Event
EC	01/22	13:00	ECB's Draghi speaks at Industrie-Handelskammer in Frankfurt
UK	01/23	04:30	Bank of England Releases Monetary Policy Committee Minutes
EC	01/23	08:30	OECD's Padoan, EU's Buti Speak at Brussels Think Tank
PO	01/23		Portugal Releases Year-to-Date Budget Report
SZ	23-27 JAN		World Economic Forum Holds Annual Meeting in Davos
GE	01/24	04:00	Gerhard Schroeder Gives Foreign and Security Policy Speech
FR	01/25	12:00	Total Jobseekers
UK	01/25		London Transportation Workers to Strike

Asia Pacific

Country	Date	Time	Event
IN	01/19	01:00	RBi Governor Subbarao to Attend Memorial Lecture
PK	20-21 JAN		UN Security Council Holds Peacekeeping Debate
JN	21-22 JAN		**BOJ Target Rate**
IN	21-29 JAN		India's Chidambaram Meets Investors in Asian, European Capital
NZ	01/22	16:00	Jobs Online Report From Labor Department
JN	01/23	00:00	Bank of Japan Monthly Economic Report for January
NZ	01/23	16:30	Business NZ Publishes Performance of Manufacturing Index
NZ	01/23	21:00	Credit Card Spending
PH	01/24	03:00	**Overnight Borrowing Rate**
NZ	01/24	16:00	Government Financial Statements
JN	01/24	18:50	BOJ Minutes of December Meeting

Latin America

Country	Date	Time	Event
BZ	01/21	05:30	Central Bank Weekly Economists Survey

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	January 23, 2013	1.00	1.00
Federal Reserve – Federal Funds Target Rate	0.25	January 30, 2013	0.25	--
Banco de México – Overnight Rate	4.50	March 8, 2013	4.50	--

BoC: We expect the BoC to remain on hold at its Jan. 23 meeting and to slightly reduce its near-term projections for GDP growth and CPI, possibly pushing out its forecast for the date at which the Canadian economy returns to full capacity (currently the end of 2013) unless future growth forecasts are ramped up. We expect the statement to still contain warnings that "over time some likely withdrawal of monetary policy stimulus will likely be required" – and we expect markets to look through that warning as the BoC also continues to emphasize the "two-sided risks" to the household sector, which of course include downside risks. We would emphasize the downside risks in light of slowing home resales nationally and declining prices in the Vancouver area.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	February 7, 2013	0.75	--
Bank of England – Bank Rate	0.50	February 7, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	March 14, 2013	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	February 15, 2013	8.25	--
Hungarian National Bank – Base Rate	5.75	January 29, 2013	5.75	5.50
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.50	January 22, 2013	5.50	5.50
Sweden Riksbank – Repo Rate	1.00	February 13, 2013	1.00	--
Norges Bank – Deposit Rate	1.50	March 14, 2013	1.50	--

As expected, last month the central bank of Turkey lowered the benchmark interest rate by 25 basis points to a new record low of 5.50%. The move was supported by continued disinflation and the moderated pace of domestic demand. Inflation fell further in December, to 6.2% y/y (a 15-month low). The accompanying statement showed that the authorities expect to see domestic demand recuperate in 2013, contributing more to growth than in 2012, when net exports propelled the economy. We thus expect the bank to adopt a wait-and-see approach at the upcoming meeting, allowing for time to further assess the global economic course as well as the effects of the first rate cut before deciding whether to ease monetary conditions further.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	January 22, 2013	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.00	February 4, 2013	3.00	3.00
Reserve Bank of New Zealand – Cash Rate	2.50	January 30, 2013	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	January 29, 2013	7.75	7.75
Bank of Korea – Bank Rate	2.75	February 13, 2013	2.75	--
Bank of Thailand – Repo Rate	2.75	February 20, 2013	2.75	--
Bank Indonesia – Reference Interest Rate	5.75	February 12, 2013	5.75	--

The Bank of Japan (BoJ) will meet on January 21st-22nd; given Japan's weak domestic economic outlook and the authorities' decisive fight against deflation, the BoJ will likely loosen monetary conditions further by raising the total size of the Asset Purchase Program (currently 101 trillion yen). We anticipate a 10 trillion yen (US$112 billion) increase, though a more radical measure, such as a commitment to open-ended asset purchases, is a possibility as well. Moreover, we expect that the central bank will increase the annual inflation target from 1% to 2%, as forcefully advocated by Prime Minister Shinzo Abe.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	7.25	March 6, 2013	7.25	--
Banco Central de Chile – Overnight Rate	5.00	February 14, 2013	5.00	--
Banco de la República de Colombia – Lending Rate	4.25	January 28, 2013	4.25	4.00
Banco Central de Reserva del Perú – Reference Rate	4.25	February 7, 2013	4.25	4.25

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	January 24, 2013	5.00	5.00

The South African Reserve Bank (SARB) is expected to leave the reference repo rate unchanged at 5.0% for the third consecutive meeting since cutting the rate by 50 basis points in July. The inflation rate (at 5.6% y/y in October-November) is near the upper boundary of the tolerance range, while the rand is hovering around its post-crisis low, having weakened anew in 2013, reversing a December recuperation phase. Therefore, despite the weakened state of the domestic and global economy, for the time being the SARB won't likely provide any additional policy accommodation.

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Forecasts as at December 20, 2012*	2000-11	2012f	2013f	2014f	2000-11	2012f	2013f	2014f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	3.1	3.2	3.8				
Canada	2.2	2.0	1.7	2.3	2.1	1.6	1.9	2.1
United States	1.8	2.2	2.0	2.5	2.5	2.1	2.2	2.2
Mexico	2.2	4.0	3.6	3.9	4.8	4.0	4.0	3.8
United Kingdom	1.9	0.0	1.3	1.5	2.3	2.8	2.6	2.5
Euro Zone	1.4	-0.5	-0.1	1.0	2.1	2.2	2.0	1.7
Japan	0.8	2.1	0.8	1.2	-0.3	0.0	0.3	0.6
Australia	3.0	3.5	2.6	3.1	3.1	2.5	2.8	3.0
China	9.4	7.7	8.0	8.3	2.4	2.2	3.3	3.9
India	7.3	5.5	6.0	6.5	6.6	7.3	7.0	6.1
South Korea	4.5	2.2	3.0	3.5	3.2	1.7	2.8	3.0
Thailand	4.0	5.5	4.0	4.2	2.7	3.2	3.1	3.3
Brazil	3.6	1.0	3.5	4.0	6.6	5.5	5.8	5.0
Chile	4.8	5.4	5.0	5.4	3.5	2.1	3.2	3.0
Peru	5.6	6.3	6.0	5.5	2.6	3.3	3.0	3.0

Central Bank Rates (%, end of period)	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.00	3.00	3.00	3.00	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.97	0.97	0.96	0.96	0.95	0.95	0.94
Canadian Dollar (CADUSD)	1.03	1.03	1.03	1.04	1.04	1.05	1.05	1.06
Euro (EURUSD)	1.33	1.30	1.29	1.28	1.27	1.26	1.26	1.25
Sterling (GBPUSD)	1.63	1.62	1.63	1.64	1.64	1.65	1.65	1.66
Yen (USDJPY)	84	85	87	89	90	90	91	91
Australian Dollar (AUDUSD)	1.05	1.05	1.06	1.07	1.08	1.08	1.09	1.09
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.2	6.1	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.8	12.9	12.8	13.0	13.2	13.0	12.8	12.9
Brazilian Real (USDBRL)	2.06	2.11	2.12	2.15	2.15	2.15	2.18	2.20

Commodities (annual average)	2000-11	2012f	2013f	2014f
WTI Oil (US$/bbl)	57	94	94	96
Brent Oil (US$/bbl)	58	112	112	112
Nymex Natural Gas (US$/mmbtu)	5.67	2.85	3.75	4.00
Copper (US$/lb)	2.10	3.62	3.50	3.30
Zinc (US$/lb)	0.77	0.88	1.01	1.20
Nickel (US$/lb)	7.62	7.95	8.10	8.00
Gold, London PM Fix (US$/oz)	668	1,670	1,750	1,700
Pulp (US$/tonne)	718	872	875	950
Newsprint (US$/tonne)	581	640	630	660
Lumber (US$/mfbm)	272	298	340	375

[1] World GDP for 2000-11 are IMF PPP estimates; 2012-14f are Scotiabank Economics' estimates based on a 2011 PPP-weighted sample of 38 countries.

[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

* See Scotiabank Economics 'Global Forecast Update' (http://www.gbm.scotiabank.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

North America

Canada	2011	12Q2	12Q3	Latest	
Real GDP (annual rates)	2.6	1.7	0.6		
Current Acc. Bal. (C$B, ar)	-52.3	-73.5	-75.6		
Merch. Trade Bal. (C$B, ar)	0.9	-14.4	-20.6	-23.5	(Nov)
Industrial Production	3.5	2.4	-0.2	-1.3	(Oct)
Housing Starts (000s)	193	231	222	198	(Dec)
Employment	1.6	1.2	1.0	1.8	(Dec)
Unemployment Rate (%)	7.5	7.3	7.3	7.1	(Dec)
Retail Sales	4.1	2.6	2.5	1.7	(Oct)
Auto Sales (000s)	1589	1671	1663	1725	(Nov)
CPI	2.9	1.6	1.2	0.8	(Nov)
IPPI	4.6	0.7	0.0	0.5	(Nov)
Pre-tax Corp. Profits	15.4	0.4			

United States	2011	12Q2	12Q3	Latest	
Real GDP (annual rates)	1.8	1.3	3.1		
Current Acc. Bal. (US$B, ar)	-466	-472	-430		
Merch. Trade Bal. (US$B, ar)	-738	-743	-696	-789	(Nov)
Industrial Production	4.1	4.9	3.4	1.8	(Dec)
Housing Starts (millions)	0.61	0.74	0.77	0.95	(Dec)
Employment	1.1	1.3	1.4	1.4	(Dec)
Unemployment Rate (%)	8.9	8.2	8.0	7.8	(Dec)
Retail Sales	8.3	4.3	4.6	4.4	(Dec)
Auto Sales (millions)	12.7	14.1	14.5	15.3	(Dec)
CPI	3.2	1.9	1.7	1.7	(Dec)
PPI	6.0	1.1	1.5	1.3	(Dec)
Pre-tax Corp. Profits	2.1	14.6	19.3		

Mexico	2011	12Q2	12Q3	Latest	
Real GDP	3.9	4.4	3.3		
Current Acc. Bal. (US$B, ar)	-9.2	3.6	-14.6		
Merch. Trade Bal. (US$B, ar)	-1.5	6.1	-4.7	-15.2	(Nov)
Industrial Production	4.0	4.1	3.6	2.8	(Nov)
CPI	3.4	3.9	4.6	3.6	(Dec)

Europe

Euro Zone	2011	12Q2	12Q3	Latest	
Real GDP	1.5	-0.5	-0.6		
Current Acc. Bal. (US$B, ar)	17	84	138	113	(Oct)
Merch. Trade Bal. (US$B, ar)	12.8	131.6	108.6	128.4	(Oct)
Industrial Production	3.4	-2.2	-2.4	-4.1	(Nov)
Unemployment Rate (%)	10.1	11.2	11.5	11.7	(Nov)
CPI	2.7	2.5	2.5	2.2	(Dec)

Germany	2011	12Q2	12Q3	Latest	
Real GDP	3.1	1.0	0.9		
Current Acc. Bal. (US$B, ar)	203.6	192.1	208.7	235.5	(Nov)
Merch. Trade Bal. (US$B, ar)	217.1	247.4	259.1	224.3	(Nov)
Industrial Production	8.0	-0.2	-1.1	0.6	(Nov)
Unemployment Rate (%)	7.1	6.8	6.8	6.9	(Dec)
CPI	2.3	1.9	1.9	2.1	(Dec)

France	2011	12Q2	12Q3	Latest	
Real GDP	1.7	0.1	0.0		
Current Acc. Bal. (US$B, ar)	-54.5	-90.2	-40.0	-65.6	(Nov)
Merch. Trade Bal. (US$B, ar)	-53.5	-57.6	-48.0	-40.5	(Nov)
Industrial Production	1.7	-1.9	-2.1	-3.9	(Nov)
Unemployment Rate (%)	9.6	10.2	10.3	10.5	(Nov)
CPI	2.1	2.0	2.0	1.3	(Dec)

United Kingdom	2011	12Q2	12Q3	Latest	
Real GDP	0.9	-0.3	0.0		
Current Acc. Bal. (US$B, ar)	-32.7	-106.3	-100.9		
Merch. Trade Bal. (US$B, ar)	-160.7	-176.7	-162.1	-175.6	(Nov)
Industrial Production	-0.7	-2.7	-1.8	-5.4	(Nov)
Unemployment Rate (%)	8.1	8.1	7.8	7.8	(Sep)
CPI	4.5	2.7	2.4	2.7	(Dec)

Italy	2011	12Q2	12Q3	Latest	
Real GDP	0.6	-2.3	-2.4		
Current Acc. Bal. (US$B, ar)	-67.4	-4.3	-8.8	-3.8	(Oct)
Merch. Trade Bal. (US$B, ar)	-35.5	17.0	23.0	36.4	(Nov)
Industrial Production	0.2	-7.5	-6.4	-9.9	(Nov)
CPI	2.8	3.3	3.2	2.4	(Dec)

Russia	2011	12Q2	12Q3	Latest	
Real GDP	4.3	4.0	2.9		
Current Acc. Bal. (US$B, ar)	98.8	21.2	6.7		
Merch. Trade Bal. (US$B, ar)	16.5	16.6	12.8	15.4	(Nov)
Industrial Production	4.8	2.3	2.5	1.9	(Nov)
CPI	8.4	3.8	6.0	6.6	(Dec)

All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2011	12Q2	12Q3	Latest	
Real GDP	2.4	3.8	3.1		
Current Acc. Bal. (US$B, ar)	-33.9	-34.5	-66.1		
Merch. Trade Bal. (US$B, ar)	35.7	27.5	2.2	-31.7	(Nov)
Industrial Production	-0.8	2.7	4.3		
Unemployment Rate (%)	5.1	5.1	5.3	5.4	(Dec)
CPI	3.3	1.2	2.0		

Japan	2011	12Q2	12Q3	Latest	
Real GDP	-0.5	4.0	0.5		
Current Acc. Bal. (US$B, ar)	119.2	56.8	82.4	-33.0	(Nov)
Merch. Trade Bal. (US$B, ar)	-33.9	-63.3	-96.8	-128.9	(Nov)
Industrial Production	-2.3	5.1	-4.6	-9.9	(Nov)
Unemployment Rate (%)	4.6	4.4	4.2	4.1	(Nov)
CPI	-0.3	0.2	-0.4	-0.4	(Nov)

South Korea	2011	12Q2	12Q3	Latest	
Real GDP	3.6	2.3	1.5		
Current Acc. Bal. (US$B, ar)	26.1	44.8	58.2	82.5	(Nov)
Merch. Trade Bal. (US$B, ar)	30.8	38.9	30.1	23.1	(Dec)
Industrial Production	6.9	2.4	-0.1	3.0	(Nov)
CPI	4.0	2.4	1.6	1.4	(Dec)

China	2011	12Q2	12Q3	Latest	
Real GDP	10.4	7.6	7.4		
Current Acc. Bal. (US$B, ar)	201.7				
Merch. Trade Bal. (US$B, ar)	155.0	273.6	316.6	379.4	(Dec)
Industrial Production	12.8	9.5	9.2	10.3	(Dec)
CPI	4.1	2.2	1.9	2.5	(Dec)

Thailand	2011	12Q2	12Q3	Latest	
Real GDP	0.1	4.4	3.0		
Current Acc. Bal. (US$B, ar)	5.9	-2.3	2.7		
Merch. Trade Bal. (US$B, ar)	1.4	0.5	1.7	0.6	(Nov)
Industrial Production	-9.3	-1.6	-10.8	83.6	(Nov)
CPI	3.8	2.5	2.9	3.6	(Dec)

India	2011	12Q2	12Q3	Latest	
Real GDP	7.5	5.5	5.3		
Current Acc. Bal. (US$B, ar)	-62.5	-16.4	-22.3		
Merch. Trade Bal. (US$B, ar)	-13.5	-13.7	-16.9	-17.7	(Dec)
Industrial Production	4.8	-0.3	0.4	-0.1	(Nov)
WPI	9.5	7.5	7.9	7.2	(Dec)

Indonesia	2011	12Q2	12Q3	Latest	
Real GDP	6.5	6.4	6.2		
Current Acc. Bal. (US$B, ar)	1.7	-7.7	-5.3		
Merch. Trade Bal. (US$B, ar)	2.2	-0.8	0.2	-0.5	(Nov)
Industrial Production	4.1	2.2	2.9	8.9	(Oct)
CPI	5.4	4.5	4.5	4.3	(Dec)

Latin America

Brazil	2011	12Q2	12Q3	Latest	
Real GDP	2.5	0.4	0.8		
Current Acc. Bal. (US$B, ar)	-52.5	-52.7	-35.5		
Merch. Trade Bal. (US$B, ar)	29.8	18.5	34.6	27.0	(Dec)
Industrial Production	0.4	-4.3	-2.3	-2.3	(Nov)
CPI	6.6	5.0	5.2	5.8	(Dec)

Chile	2011	12Q2	12Q3	Latest	
Real GDP	6.0	5.7	5.7		
Current Acc. Bal. (US$B, ar)	-0.3	-7.0	-19.1		
Merch. Trade Bal. (US$B, ar)	10.0	6.7	-7.1	18.1	(Dec)
Industrial Production	6.9	2.8	0.8	0.8	(Nov)
CPI	3.3	3.1	2.6	1.5	(Dec)

Peru	2011	12Q2	12Q3	Latest	
Real GDP	6.9	6.3	6.5		
Current Acc. Bal. (US$B, ar)	-3.3	-1.9	-2.8		
Merch. Trade Bal. (US$B, ar)	0.9	0.2	0.3	0.2	(Nov)
Unemployment Rate (%)	7.7	7.2	6.5	5.6	(Dec)
CPI	3.4	4.1	3.5	2.6	(Dec)

Colombia	2011	12Q2	12Q3	Latest	
Real GDP	5.9	4.9	2.1		
Current Acc. Bal. (US$B, ar)	-10.0	-3.3	-3.6		
Merch. Trade Bal. (US$B, ar)	0.4	0.2	0.0	-0.2	(Nov)
Industrial Production	4.8	0.2	-0.4	1.1	(Oct)
CPI	3.4	3.4	3.1	2.4	(Dec)

All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	12Q3	12Q4	Jan/11	Jan/18*
BoC Overnight Rate	1.00	1.00	1.00	1.00
3-mo. T-bill	0.98	0.93	0.92	0.91
10-yr Gov't Bond	1.73	1.80	1.94	1.91
30-yr Gov't Bond	2.32	2.37	2.51	2.49
Prime	3.00	3.00	3.00	3.00
FX Reserves (US$B)	67.9		68.0	(Nov)
Germany				
3-mo. Interbank	0.11	0.10	0.14	0.14
10-yr Gov't Bond	1.44	1.32	1.58	1.55
FX Reserves (US$B)	68.5		68.0	(Nov)
Euro Zone				
Refinancing Rate	0.75	0.75	0.75	0.75
Overnight Rate	0.11	0.13	0.07	0.07
FX Reserves (US$B)	332.8		334.2	(Nov)
Japan				
Discount Rate	0.30	0.30	0.30	0.30
3-mo. Libor	0.13	0.11	0.11	0.10
10-yr Gov't Bond	0.78	0.79	0.82	0.75
FX Reserves (US$B)	1233.3		1231.8	(Oct)

United States	12Q3	12Q4	Jan/11	Jan/18*
Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.09	0.04	0.07	0.07
10-yr Gov't Bond	1.63	1.76	1.87	1.85
30-yr Gov't Bond	2.82	2.95	3.05	3.04
Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	142.0		140.2	(Nov)
France				
3-mo. T-bill	0.00	-0.01	0.02	0.01
10-yr Gov't Bond	2.18	2.00	2.15	2.13
FX Reserves (US$B)	50.9		54.7	(Nov)
United Kingdom				
Repo Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	0.35	0.36	0.36	0.36
10-yr Gov't Bond	1.73	1.83	2.08	2.02
FX Reserves (US$B)	87.9		89.3	(Nov)
Australia				
Cash Rate	3.50	3.00	3.00	3.00
10-yr Gov't Bond	2.99	3.27	3.47	3.41
FX Reserves (US$B)	42.4		43.8	(Nov)

Exchange Rates (end of period)

USDCAD	0.98	0.99	0.98	0.99
CADUSD	1.02	1.01	1.02	1.01
GBPUSD	1.617	1.626	1.613	1.587
EURUSD	1.286	1.319	1.334	1.330
JPYEUR	1.00	0.87	0.84	0.84
USDCHF	0.94	0.92	0.91	0.93
¥/US$	77.96	86.75	89.18	89.91
US¢/Australian$	1.04	1.04	1.05	1.05
Chinese Yuan/US$	6.28	6.23	6.22	6.22
South Korean Won/US$	1111	1064	1055	1057
Mexican Peso/US$	12.859	12.853	12.655	12.651
Brazilian Real/US$	2.026	2.052	2.034	2.044

Equity Markets (index, end of period)

United States (DJIA)	13437	13104	13488	13590
United States (S&P500)	1441	1426	1472	1478
Canada (S&P/TSX)	12317	12434	12602	12729
Mexico (IPC)	40867	43706	44888	44933
Brazil (Bovespa)	59176	60952	61497	61921
Italy (BCI)	825	873	928	934
U.K. (FT100)	5742	5898	6122	6164
Germany (Dax)	7216	7612	7716	7714
France (CAC40)	3355	3641	3706	3740
Japan (Nikkei)	8870	10395	10802	10913
Hong Kong (Hang Seng)	20840	22657	23264	23602
South Korea (Composite)	1996	1997	1997	1988

Commodity Prices (end of period)

Pulp (US$/tonne)	830	870	870	870
Newsprint (US$/tonne)	640	640	640	640
Lumber (US$/mfbm)	300	388	388	383
WTI Oil (US$/bbl)	92.19	91.82	93.56	95.09
Natural Gas (US$/mmbtu)	3.32	3.35	3.33	3.53
Copper (US$/lb)	3.75	3.59	3.66	3.65
Zinc (US$/lb)	0.95	0.92	0.91	0.92
Gold (US$/oz)	1776.00	1657.50	1657.50	1688.50
Silver (US$/oz)	34.65	29.95	30.67	31.82
CRB (index)	309.30	295.01	296.66	300.33

** Latest observation taken at time of writing.*
Source: Bloomberg, Scotiabank Economics.

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